RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Feb. 15, 1995 **LETTER 1167**

Tide Watching: If you stand on the shore and gaze at the ocean it's impossible to tell, at any given moment, whether the tide's coming in or going out. By the same token, watching the action of the stock market on any given day, it's equally difficult to determine whether it's a bull or a bear market.

But the fact is that the tide of the market is always either coming in (a bull market) or going out (a bear market). It's the determination of the major trend which is so difficult. Yet that determination is critical.

In view of the above, let's review a bit of history. The D-J Utility Average topped out at **256.46** on September 13, 1993. Four months later, on January 31, 1994, the D-J Industrial Average topped out at **3978.36.** A few days after that, on February 2, the D-J Transportation Average topped out at **1862.29.** On the same day, February 2, the advance-decline ratio recorded its peak at **-1.17.**

It's been over a year since the Dow, the Transports and the A-D ratio recorded their bull market peaks. It's been 17 months since the Utility Average posted its bull market peak.

I sent out a Special (one page) Letter on April 1,1994 stating that a primary bear market was underway, and that a primary bear market had been signaled under Dow Theory. That Letter drew little attention from anybody except my subscribers. Yet the market (certainly the broad market as measured by the advance-decline ratio) headed down, and it continued down to a low which was established on December 12, 1994 (i.e., that was the low recorded by the A-D ratio). A rally followed, which brings us up to date.

Overview: a primary bear market began in January of 1994. Since that time investors have suffered through a slow, tedious and subtle (but expensive) 13 months of general market attrition. Yes, a number of stocks have done well. Yes, the Dow and certain of the big averages have held near their highs. But since January, two out of three stocks on all the exchanges have declined, and many of them have declined substantially.

The fact is that few stock holders have been made richer by the action of the last year. Mutual funds have been hurt, hedge funds have been hurt, closed-end funds have been hurt. The strange (I should say depressing) part of it is that the bear has not really shown his claws yet. Or, to put it another way, the bear is still hiding in his lair.

In the last Letter I wrote that "time is running out for the stock market." And my thinking is that the bear is still playing games, having fun with stock holders. He's bouncing them around, first striking them with one paw, then the other. Playfully, he lets a few investors get away, and then he quickly pounces on them. But in due time the bear will tire of these games. And then he'll bring down one of his huge paws -- bring it down hard. And the bear market will be on in full force. That's when the losses mount up; that's when we'll see the big across-the-board bear market losses.

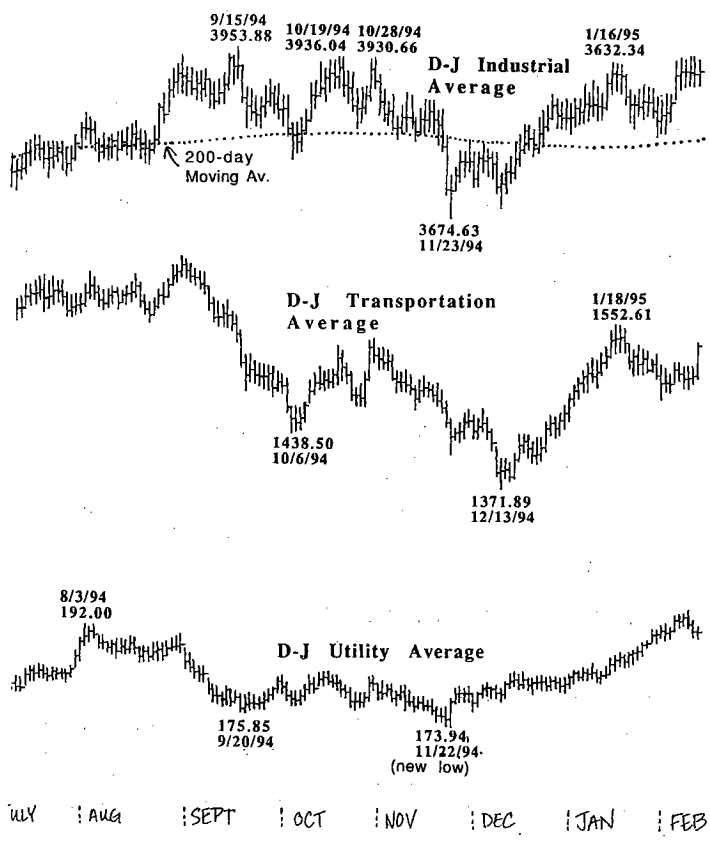
For over a year the TV and newspaper commentators, the "perma-bull" experts, and the brokerage house editors, have been promising that we'll see a "new high above 4,000 on the Dow." Maybe so, but along these lines I again suggest that you read the warning piece in the last Letter entitled, "Why time is running out for the stock market." (By the way, a section of that piece was published in the January 30 issue of *Barron's.*)

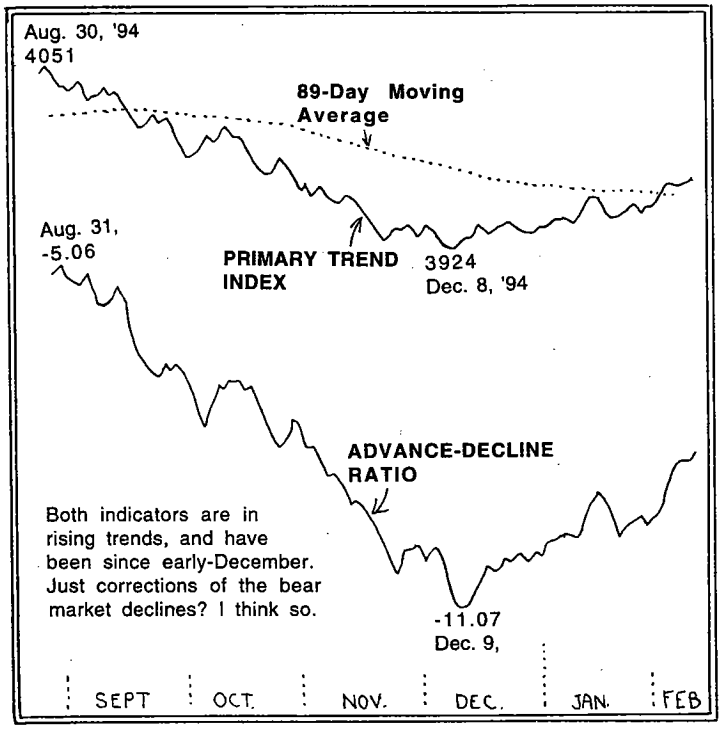
Feb. 3 DJIA 3928.64; PTI 3965; A-D Ratio -8.84
Feb. 10 DJIA 3939.07; PTI 3971; A-D Ratio -8.42
Dow Yield: 2.72%; Dow Price/Earnings: 15.6
Dow 200-day MA: 3798; Dow 30-day MA: 3883
Dow Times Book Value: 3.52; PTI 89-day MA: 3961
Percentage of Undervalued Blue-chips: 10%
Dow Low Risk Buy Index: +11; Gold-PTI: 716
Gold 200-day MA: 384.02

And what if the Dow does rally to a new all-time high above 3978.36? What would that mean? A new Dow high would almost surely be unconfirmed by the Transports, the Utilities and the A-D ratio. Actually, a new Dow high might be all that's needed to wind up this period of indecision and set the bear market moving into its "nasty stage."

My point is that the die is cast. The bear market has been signaled; it's in force. Consider the following: we've had the economic recovery. It's at a stage that Fed chief Greenspan recently described as "torrid." We've had the hype from the bulls, we've had the big pick-up in commercial loans, we've had the huge rise in consumer borrowing and spending, we've had the boom in car and home sales -- what more do we need? And still the major stock averages have failed to go to new highs. Why? Because it's a bear market. Because all the good news was fully discounted a year ago when the D-J Averages recorded their all-time highs.

So much for the past. What's next? A continuation of the bear market is next. Just how the bear plans to operate, just how this





primary bear market will develop, I don't know (and neither does anyone else). But develop it will, and my thinking is that we're drawing ever-nearer to serious bear market action.

The year 1994 was expensive for many, but it was basically a "polite" year. The widely-followed big averages never fell apart. The Dow never declined as much as 10%. The market never got fully oversold. The long string (12 incredible years) in which the Dow never dropped below the low of a preceding year -- held intact. The resident experts in *Forbes* and *Barron's* and the *Wall Street Journal* never stopped recommending stocks to buy. The various advisories continued to compete with each other for the mythical title of "number one market timer."

But alas -- in the final analysis, most stockholders were left wondering why they had less money at the end of 1994 than they had when the year started. And Richard Russell continued his lonely task of telling subscribers to forget about buying all those "stock bargains."

So now we have the spectacle of traders, investors, speculators and yes, the funds rushing back in to buy stocks. They're buying stocks by the carload in the face of dangerously low 2.7% yields, in the face of seven consecutive rate boosts by the Fed and in the face of a market that topped out a year ago. Hope springs eternal. . . .

It's clear that large interests have been moving out of the cyclical stocks and into the "safety" of the big growth and consumer oriented stocks, stocks like Merck, Proctor & Gamble and Coca Cola. This trend has been pushing the Dow higher.

Are the values there? *Investment Quality Trends* of La Jolla shows that their "Percentage of Undervalued Blue Chip Stocks" has dropped to a record low 10%. *IQ Trends* lists only two Dow stocks as "undervalued," Bethlehem Steel and Philip Morris. They list Philip Morris as the only "buy" in the Dow thirty.

A STUDY OF THE AVERAGES: The action of the D-J Averages during 1994 and 1995 provides a classic study. Despite all its gyrations, the pattern of the Industrial Average has simply traced out a trading range, a range bordered by the January high of 3978.36 and the April low of 3593.35. Looking at it another way, the Industrials have fluctuated within a range (top to bottom) of 385 points or just under 10%.

Against the Industrial action, we have the action of the Transportation Average which recorded an early-February record high of 1862.29. Transports then declined drastically to the December low of 1371.89. This represented a drop of 490 points or 26%. (I'm leaving out the Utility Average which lost over 30% from its 1993 peak.)

The situation is now particularly interesting. The Dow appears to have traced out a potential "quintuple top" in the 3950 area (see chart). More specifically the Dow hit a closing high of **3953.88** on Sept. 15, 1994. It rallied again to **3936.04** on October 19, 1994. The Dow pushed to **3930.66** on October 28, 1994. The Dow rallied a fourth time to **3932.34** on January 16, 1995. On the fifth attempt the Dow rallied to **3937.73** on February 6. So it's obvious that the 3930-3955 area offers very stubborn resistance on the upside.

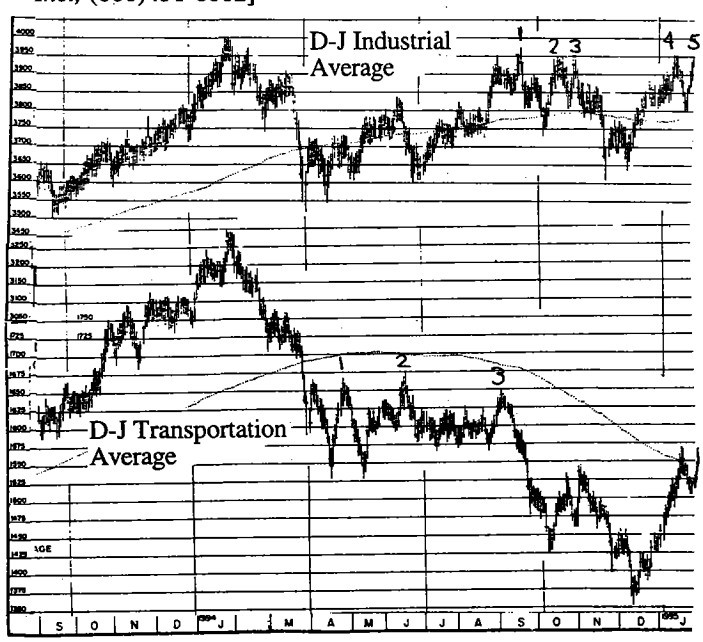
By the same token, the Transports have encountered important resistance at the 1650-60 area. The Transports tried to rally above that 1660 area in April, again in June (the June 16 high was 1661.45) and most recently in September. Each time the 1660 area turned the Transports back.

I've suggested in previous Letters that it is possible that the Dow will attempt to advance to one final record high before the bear market takes over with full force. A Dow rally, first above resistance at 3954 and then to a new record high would almost surely find the Transports unable to confirm. Such an important non-confirmation could be the technical "trigger" that would send the market into a free-fall.

Conclusion: We have important upside resistance levels in both the Dow and the Transports. Since last April the Averages have built an historic divergent structure with the Dow climbing back towards the highs while the Transports declined.

What I find particularly significant is that in the face of improving business throughout 1994 and into 1995 the D-J Averages have never been able to better their January-February 1995 highs. Clearly the markets weren't impressed by the news or at least they were not impressed enough.

However, this has to be one of the most stubborn markets I have ever seen. It reminds me of the **bulldog.** *The bulldog hangs on to his victim -- he won't bite through and he won't let go.* I term the 1994-95 stock market "the bulldog market" -- it won't go to new highs, and it won't break down. It just keeps hanging on. I suggest that we do the same -- with cash. [Chart courtesy of *Market Charts, Inc.,* (800)431-6082]



A question: Russell, in the face of the divergence in the Averages, in the face of the seven interest rate increases, why do you think the Averages are holding up?

Answer: I think it has to do with market momentum plus stubborn optimism on the part of thousands of traders, speculators and fund-buyers.

As for the momentum, it's been built up by 21 years of rising prices, and by the fact that we haven't had a single year in the last 12 years in which the Dow has broken below the low of a preceding year. Let's face it, that's a lot of upside momentum. It's never happened before and probably never will again.

The extraordinary performance described above has allowed stock buyers and stock holders to believe that the market is impregnable, that it has become thoroughly resistant to drastic declines. Evidently, US investors believe that disasters can occur in Japan, Mexico, Brazil, Italy or Hong Kong but not in the US. Let's hope they're right.

INVESTMENT POSITION: History tells us that any time the S&P sells for 30 or more times its dividend, the market is overvalued and on dangerous ground. The S&P has been selling for over 30 times its dividend for the past 48 months. This is the longest period of overvaluation in stock market annals. The hot air balloon has been floating high in the sky for four consecutive years.

After inflating the balloon through artificially low interest rates, the Fed is now attempting to engineer a "soft landing" for the economy. Bulls hope that this process will result in a slower but still vibrant economy, lower interest rates and a much higher stock market.

It's a simple concept, and if all goes well it might work. But as a rule, all does not go well in a bear market, and if you don't believe it ask the Mexicans or the Italians or the Argentineans or the good citizens of Hong Kong.

Personally, I elect to respect the bear. Be bored, be patient, be humble, be safe, be in cash. Remember, the great thing about the market is that *it's always there*. And that "marvelous opportunity" you missed today will be there tomorrow or next week or next month.

CHARTS: The only thing I sell besides these Letters are two **chart books** in loose-leaf binders. One consists of a series of charts (one large page per year) going back to 1885. Each page contains the following *daily* graphs: the D-J Industrials, the Transports, the Utilities, the Bonds, Volume plus notations of major news events of the day. The chartbook is basic, it's invaluable, it's unique -- and it even surprises me, but no one else offers anything like it. Price is $135 per album -- we pay the postage in the US.

The second book shows the Dow and the *daily* A-D (one large page per year) ratio going back to 1931, along with discussions of the price action by Richard Russell. I consider the relationship of the Dow and the A-D to be critical in market analysis. Price is $95 per album.

ALSO -- those who already have the albums, the **new 1994 pages** are ready. To update your albums, send $3 for each page. Please be specific about what page you want.

"The welfare state provides cradle to grave security and asks for nothing in return but your freedom." Alexis de Tocqueville, *"Democracy in America,"* 1884.

NOTES & QUOTES: Shame-faced, I must admit that the last Letter was not proof-read (Lynn, my proof-reader, was off to the Super Bowl). So corrections: the Tampa Bucs were sold for $192 million (not, God forbid, $192 billion). And yes, the US proposed a $40 billion line of credit for Mexico (not, God forbid, $400 billion). Listen if it was $400 billion I'd lead a march on Washington myself.

* *

Occasionally, I get a complaint that the type in these Letters is too small. It is, I admit it. But I have a lot that I want to write about, and I have to keep the Letter to six pages. So either I must write less or add another page, which would run up my costs and take the Letter over the one-ounce limit. With the damn postage going up yearly, I can't add another page. So small type it is, and maybe a magnifying glass is needed to read this Letter. But look at it this way -- I give you as much as I can for the money. And a reading glass only costs a few bucks. My apologies. I'm sorry. Be kind to me.

* *

California has suffered earthquakes, huge fires, deadly riots, disastrous floods, withering hot spells, frightful droughts. But amazingly, San Diego (at the southern tail-end of the state) has escaped all this -- we've never had a natural disaster here. Yeah, I checked this carefully before I moved here. Twenty-five miles south of San Diego lies the Mexican city of Tijuana with a population (would you believe) of two million. Recently, I heard a veteran San Diego newspaperman suggest that sometime in the future San Diego might be just a lovely bedroom community located between two huge, sprawling cities, Tijuana and Los Angeles. Personally, I doubt it. One of the reasons I moved here from NYC was that I thought NYC's "vibrations" were going bad, and I felt that San Diego's vibrations were the best in the nation. I'm still of that opinion.

Do I miss NYC? Nope. With TV, the *NY Times* (happily delivered here at 2AM in the morning), the *New Yorker* magazine, *New York* magazine, etc., I feel I'm in touch with all the fun offered by "Fun City." (Remember when they called it that?) I left NYC in 1961 -- that was the last year when you could park your car on the street all night and find it there, unbattered and in one piece, in the morning.

When I grew up in NYC back in the early '40s we kids never had cars (unlike West Coast kids). So I didn't learn to drive until I went into the Air Force at age 18. I bought an old Ford Model T in 1943, drove it around the Air Force base until I had mastered its intricacies, and the rest is Russell history (of course, I always preferred motorcycles to cars, but that's another story). Wait, one more tale -- after the war (1946) my old buddy, Jay Pack, bought a bright green Buick, brand new, price $1,800. Bright green -- we couldn't believe it! Up to that time, all cars were black or gray or some other bleak color. Gad, we gave Jay a hard time about that green Buick. But Jay was way ahead of his time -- now you can drive a purple car with polka dots and nobody does a double take.

* *

Time Warner just plopped down $2.2 billion in stock and debt for another collection of cable-TV systems. I dunno. I've got cable and more recently the new little 18-inch satellite system. I love that satellite with its endless list of stations. I'm thinking that the wave of the future is satellites, not cable.

* *

President Clinton wants to boost the minimum wage to over $5 per hour. The problem is that this would widen the spread between the US non-skilled wages and the Latin American and Asian wages. With the peso in the tank, a higher US minimum wage would be guaranteed to move jobs to Mexico and Asia. People forget that two-thirds of the rest of the world (i.e., Asia, Latin America, India) have now joined the free market economy. While US economists have been singing the song of "huge, expanding markets," I've been saying that we're also facing a massive and expanding SUPPLY of goods from around the world. Verdict -- increasingly fierce price competition and a basically DEflationary situation.

* *

Last Saturday I accompanied my 14-year old daughter, Lauren, to the Gap on a shopping trip. While Lauren tried on skirts, I perused through the various labels. I saw Israel, China, Sri Lanka, Hong

Kong, Taiwan, Singapore, etc. Conclusion: if anyone wants you to invest in a clothing manufacturing plant located in the US, tell them you'll pass.

* *

Clinton needs defense lawyers because of his Whitewater and his extra-curricular activities. So far, the Prez' defense has raised $608,000 from 6,000 dutiful donors. Not enough, Clinton needs $1.2 to $2 million. Is this a great President or what!

* *

Mexico knew before NAFTA that it was going to devalue the peso. So what actually happened? Mexico, a medium-sized developing country, ran up a ridiculously high external deficit (8% of its gross domestic product), and at the same time it accumulated excessive quantities of short-term dollars (many of these dollars came from US banks, funds and investors, who were reaching for the "fat returns" on Mexican securities). And all along Mexico continued to print pesos. Next, Mexico's reserves began to disintegrate. So after assuring investors that it would not devalue, Mexico devalued the peso. That set off a wild scramble by investors to retrieve their money. In the face of billions of dollars in US losses, Clinton tried to mount a $40 billion bailout, mainly for US banks, funds and investors. But polls showed that 80% of Americans opposed the $40 billion bailout. US politicians backed off to argue the situation.

Next, Clinton invoked "Executive Authority" and pledged $20 billion from the US "Exchange Stabilization Fund" while obtaining promises of another $29 billion from the IMF and other sources. (**Note:** The Exchange Stabilization Fund was set up in 1934 to defend the value of the dollar after the US abandoned the gold standard. The Mexican bailout used up 80% of the fund.) **Russell comment:** The Mexican bailout represents a huge gamble for Clinton and the US. Mexico is unreliable and unstable. As this is written, not much has changed in Mexico except that the peso is still in the dumps. It will take time to see whether Mexico can weather the storm. Question: is the Federal Reserve the central bank to the world? Would we bail out Canada? Italy? Spain? Answer: you bet, if US banks and investors were involved in any large way.

The immediate trigger for Clinton's rush to rescue was this -- there are $28 billion of tesobono (short-term) Mexican bonds outstanding. Of the total, Mexicans own $11 billion but Americans own the rest. If the US had not bailed out Mexico, those bonds would surely have gone into default. And many US banks, funds and investors would have been (ahem) in deep trouble.

* *

Incredible: Jim Grant reports that Greenspan had called Rush Limbaugh prior to the Mexican bailout. Limbaugh? Why? Russell guess: Clinton asked Greenspan to make the call -- Clinton wanted to feel out Limbaugh, America's talk-radio king, regarding how much flack Clinton might take if he sent a monster package of US assets South of the Border. Writes Grant, this was *"the most frightening news in the events leading up to the Mexican financial rescue."*

* *

Shocker: The Russian army, long touted as one of the mightiest military establishments on the planet, turns out to be a sad collection of untested men and boys who have been ground to a halt by a rag-tag army of fierce, Chechen fighters. Russian Lt. General Alexander Lebed told the *Baltimore Sun,* "Russia no longer has an army . . . only military formations of boy-soldiers . . . hardly capable of achieving anything." *USA Today* wrote, "Witnesses reported Russian troops with no socks, using 19th-century foot-wrappings. Officers had no maps, battalions lacked any training in guerrilla or urban warfare . . . Tank columns wandered aimlessly, committing the cardinal error of getting separated from ground forces."

* *

I can't remember seeing so many days in which either the Dow was up and the Transports were down, or vice versa (so far, 15 out of 28 trading days in 1995). My experience has been that when the Averages disagree (divergence), it's a sign of distribution. This should be an interesting area for study, and if any of my studious subscribers would care to do some research into this phenomenon, I would be most interested.

* *

Where are you? What is the percentage of millionaires (people with assets of one million) in the US? Answer 2.4% of the population or 2.3 million people. How about people with assets of $5 million? They amount to just 0.2% of the population or 182,000 people. OK, how about people with assets of $10 million? Now we're down to 0.03% or only 29,000 people. Let's try one more -- people with fat assets of $50 million. Alas, we have only 0.005% of the population or just 2,560 people.

* *

You have to wonder what Fed Chief Greenspan is up to. A few weeks ago he complained that the Consumer Price Index inflates the official inflation figures by about 1.5%. Meanwhile, the government tells us that inflation is running at a mere 2.7% rate. So if Greenspan is right the actual inflation rate is only 1.2% or almost negligible. If Greenspan is correct, that there's almost no inflation. Then why has the Fed raised rates seven times over the last 12 months? Conclusion -- if you don't like the inflation figures, well, just rearrange the index.

* *

Showing a total lack of leadership and absolutely no political courage, Clinton's new federal budget allows for deficits of $190 billion a year and more -- out as far as the eye can see. But don't worry, nobody takes the Presidential budget seriously anymore. It's just a meaningless political gizmo. We'll see if Congress has the guts to do any better.

* *

The real deficit: The latest figure on the national debt is $4.816 trillion. Exactly one year ago it was $4.525 trillion. Therefore, the true additions to the national debt over the last 12 months -- **$291 billion.** Of this, $58 billion was diverted from the Social Security Trust Fund. If a corporation did that, its officers would end up behind bars. **Russell comment:** The Republicans talk about reducing taxes and balancing the budget by 2002. On top of that, some honest Republicans are now talking about an end to robbing the Social Security Trust. Will it all work? Sure, when pigs have wings.

* *

There are all sorts of rumors regarding who actually owns the Federal Reserve. As far as I know, there is no official published list of the actual owners -- or if there is one, I have never seen one. Subscribers? Anyone?

* *

With all the current "prosperity," why aren't more Americans happy? One theory is rather interesting, and I think -- correct. It goes like this. The **new "elite"** are the college-educated, computer-wise, high-tech or specialized groups in the US. This new elite comprise maybe 15% of the population. Their jobs are secure, but if, perchance, they do lose their jobs, other companies will be bidding for their services. Then there is the underclass or the **unemployables**, or if this group can find jobs at all, the jobs pay minimum wages. This group comprises a surprising 30% of the population. Finally, there is the in-between or **middle class** group, and they comprise all the rest. But this group is *very insecure,* and with good reason. They are aware that they can lose their jobs in a heart-beat (or a corporate "downsizing"). And almost daily, they see it happening to their neighbors. So we have a huge percentage of Americans living on the edge or at least feeling as though they are living on the edge. It's all part of the nerve-wracking "new economy." And by the way, it's this large middle class group that Clinton is trying so hard to attract. Good luck, Prez, you'll need it.

* *

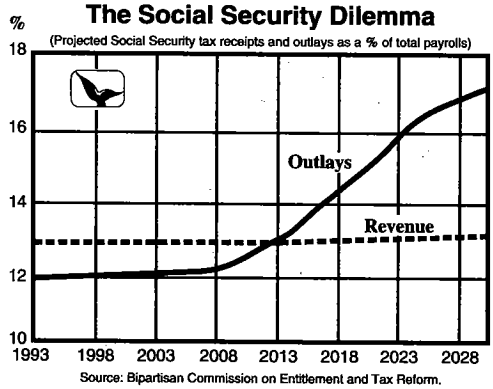
Talk Radio -- an increasingly large sector of the US no longer reads newspapers (in fact, they no longer read). Furthermore, they have grown skeptical of the press. So where do Americans get their news from? An increasing number get their news from TV or from radio, and I'm referring to "talk radio." Talk radio tends to be populated by conservative talkers, and thus Americans are now getting a large dosage of conservative talk. This switch in news sources is playing hell with the Democrats and the liberals. And I believe this is the change that gave both houses of Congress a Republican majority. Flash! Mario Cuomo is threatening to have

his own radio show. But he claims it won't be an antidote to Rush. Liberal talk radio, it's coming.

* *

The balanced budget amendment has now passed the House and it awaits Senate approval and then ratification by the states. The proponents of the bill want Social Security to remain in the budget. They can't get the law to work without it. Because without the revenues they "steal" from Social Security Trust Fund, Congress would have to find $1.5 trillion in further cuts between now and 2010 in order to balance outlays and income. "Figures don't lie, but liars can figure."

But there are more problems in our future (see chart, courtesy of *United & Babson Investment Report*). Coming up shortly, SS outlays are going to outrun revenue. This is because more and more retired people will be on the SS rolls. When that happens, even assuming that Washington continues to steal from the SS funds, the whole Ponzi scheme will hit the fan. Then what happens? Damned if I know -- the dollar goes into the tank? SS comes unglued? The Fed has to decide whether to inflate wildly? The government renegs on its debts? Your guess is as good as mine. But it's not a pretty picture, and the balanced budget amendment, even if not passed, will hopefully bring all these lies and subterfuges out in the open. The American people deserve to know when Ponzi financing has been thrust upon them. And they will.



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Remember, a few months ago I wrote about my own experience during WWII and about the outrageous exhibit at Washington's Smithsonian museum. The exhibit sought to present the dropping of the Atomic bomb as an example of American brutality, and it presented the Japanese as victims. The Smithsonian estimate of the number of Americans that would have been killed (without the use of bomb) if we had invaded Japan was about 63,000 casualties. Are they kidding!? In the attack on the single island of Iwo Jima, America suffered 60,000 casualties. And talk about resistance, of 21,000 Japanese on the island, all but 1,000 were killed. If we had invaded Japan would America have suffered only 63,000 casualties, as Smithsonian claimed? More like one million. By the way, it looks as if most of the Smithsonian exhibit will be canceled, to which I say, good riddance.

And I might as well end the discussion with this -- during WWII 10,000 American prisoners died in the hands of the Japanese. Many were starved, many were tortured, many sought to cling to life under the most hideous and barbaric conditions. It was a far different story as far as America's prisoners were concerned. With my own eyes I saw thousands of German prisoners (they were shipped to the states) living under better conditions than our own GIs were. Which, by the way, made those of us who saw what was happening -- mad as hell.

Speaking of the 1940s, I have always held that the Holocaust was without parallel in history. True, Stalin was responsible for more deaths than Hitler was. Millions died during the Chinese red tide. And the Japanese butchered 100,000 Chinese in a few days during the Rape of Nanking. But there has never been anything like the Holocaust, and this paragraph from the Jan. 28 *Economist* makes the case: *"The peculiar circumstances of the Holocaust do make it unique. Never has the extermination of an entire people, coupled with the technology of industrialization and even -- most chilling of all -- applied by a regime that has been more or less democratically elected, been attempted so systematically as an end in itself. Never has mass murder been attempted so efficiently, so scientifically perpetrated. Never has the annihilation of a race been so central to an ideology. Despite the scale and cruelty of Stalin's violence, buttressed by the false logic of Marxism and the notion that whole 'classes' of people should be destroyed, his aims lacked the single-minded totality of Hitler's vision of the extermination of a people as the 'final solution'."*

* *

I continue to get piles of letters asking about chelation. My suggestion if you're interested is -- go to your local health food store and buy one of the half dozen books written about chelation. Does chelation work? All I can say is that the angina (heart) pains that I used to get as frequently as two or three or more in a month, have now about disappeared. Friends of mine, honest, upstanding physicians, insist that chelation is just another placebo. "If you think it works, that may explain why the pains have gone away." Yeah, right, docs. The most incredible part of it is that the insurance companies have never sponsored a major "double-blind" test of chelation. If they discovered that it worked, they would save billions of dollars that they now spend on angioplasty and even coronary bypass. My advice to the insurance companies, don't listen to the AMA, get off your fat duffs and do the tests yourself. Latest: the California Medical Board is seeking to ban chelation therapy (where it applies to the circulatory system). The only thing that stands in the Board's way is the protests of the patients who have been successfully chelated.

* *

An excellent new book is entitled, "100 Minds That Made the Market" (Kenneth Fisher, Business Classics, Woodside, CA 94062). I don't usually get much out of business books, but this one is a real winner. Fascinating biographies on everyone from Charles Dow and Ben Graham to Nathan Rothschild, Russell Sage, Edson Gould, Bernard Baruch, Jesse Livermore, James Hill, "Diamond Jim" Brady, John "Bet-a-Million" Gates and many, many more. Typical insight -- Mayer Rothschild's wife bore 20 children, 10 of whom died early. Five boys and five girls survived. Yet, Mayer's wife lived to be 97. Whew. When Nathan Rothschild died (1836), carrier pigeons brought the news to the other Rothschild brothers located in different nations. The message on each pigeon simply said, "Il est mort." He is dead.

* *

Sen. Phil Gramm is deadly serious about running for President in '96. And he'll have plenty of green backing. Recently Gramm planned a fund-raiser dinner for 2,100 people in Dallas. But they had to change locations -- seems 2,500 people wanted to attend. The event was calculated to raise $2.5 million, but new pledges have already passed $4 million. For now it looks like Gramm or Dole for the Republicans.

* *

States: California's credit has been lowered three times since 1970 and its bonds are now rated single A. Only one other state's bonds are rated single A, Louisiana's. New York state's bonds are rated A-, the only state rated that low. Five states have top AAA bond ratings -- they are Maryland, Missouri, N. Carolina, Utah, Virginia . . . Then there's New York City. New Mayor Guiliani has slashed $3.4 billion from the city's budget, but he still can't find enough money to pay the city's bills. S&P is threatening to slash the city's credit rating from A- to BBB (junk) unless it can come up with a convincing plan by April. Among other things, NYC runs 17 public hospitals plus a program called "home relief" which supports 250,000 people with welfare payments, even though the recipients have no dependents. On top of everything else, the city stands to lose major grants under the new Washington regime. Gingrich despises NYC, calling it a decadent relic of unreconstructed liberalism. He refers to NYC's "slow motion suicide." **Russell comment:** Are we seeing shades of 1975, the year when NYC's bubble burst?

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Asian warning: Malaysia isn't fooling around. A new order states that anyone found guilty of market manipulation, short selling, insider trading or misleading investors will risk fines of one million ringets ($391,000) and a prison sentence up to 10 years (in all, twice the old punishment). And get this, on top of everything else,

those found guilty will risk "a stiff caning." Said Robert Stovall (President of Twenty-First Advisors), "If they tried that in the states there'd be a lot of tired arms, and sore buttocks."

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Subscribers don't know this (why should they, I've never mentioned it), but I'm a member of the National Futures Association and am also licensed as a Commodity Trading Advisor. Which leads me to this -- I just received the current copy of the NFA News. And here's an honest statement from Hal T. Hanson, the Chairman of NFA. **Prediction for 1995:** "It's going to be unpredictable year." Gosh, you can't be any more honest than that.

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In 1929 if you made $5,000 a year (which was darn good money in those days), your federal income tax was $10. Today, if you made $5,000, you'd be at the bottom of the poverty list. My how things have changed. And what kind of changes do we have? Today -- roughly one out of every three American babies born out of wedlock, a giant wealth transfer system, a Social Security System that is breaking down, massive government -- and whopping high income taxes. Try this for size -- 20 years ago the federal budget was $370 billion. Last week Clinton asked for $1.6 trillion to run the government (that's a $50 billion increase over the current budget). Listen, you can't stop progress.

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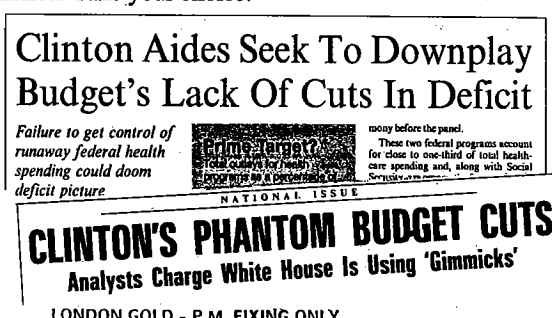
The Japanese are trying to reliquefy following the collapse of their "bubble economy." Salomon Bros. estimates that the total of "nonperforming loans" held by Japan's 21 leading banks amounts to a whopping $133 billion. Sumitomo Bank announced that it would write down $8 billion in bad debts and take a $2.8 billion loss for the fiscal year ending March. I note that the Japanese are bailing out of properties here in San Diego, and receiving about 50 to 70 cents on the dollar for their assets. For instance, the Ritz-Carleton Huntington on which Dai-Ichi held a defaulted $113 million note, was sold to the LA County Employees Retirement Assn. for (gulp) $42 million. The L'Auberge Del Mar, on which Dai-Ichi held a note for more than $22.5 million, was sold to the Public Employees System of Ohio for a bargain $11.5 million. And those are typical sales.

* *

Clinton has thrown in the sponge on cutting the deficits, and the ball (and it's a political as well an economic ball) has fallen to the Republicans. America's half-century deficit-extravaganza is coming to a close, and now painful cuts will have to be made. It's either cuts or bye-bye for the dollar. It's either cuts or higher interest rates and recession. It's either cuts or a shredding of the Contract With America. Take your choice.


Clinton Aides Seek To Downplay Budget's Lack Of Cuts In Deficit

Failure to get control of runaway federal health spending could doom deficit picture

Crime Targets

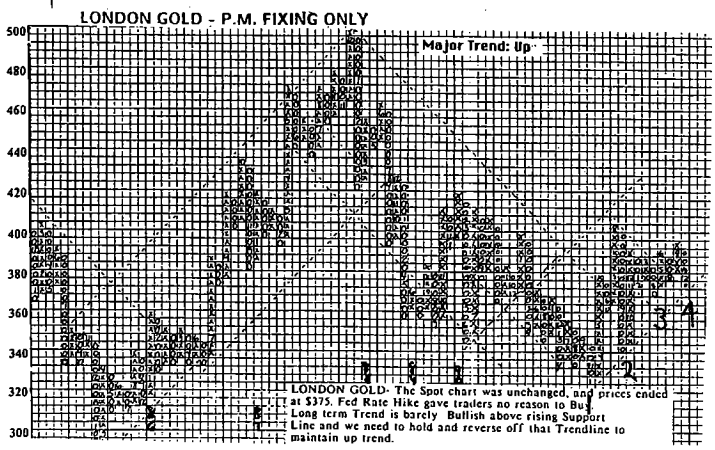
mony before the panel.

These two federal programs account for close to one-third of total health-care spending and, along with Social

NATIONAL ISSUE

CLINTON'S PHANTOM BUDGET CUTS

Analysts Charge White House Is Using 'Gimmicks'


LONDON GOLD - P.M. FIXING ONLY
Major Trend: Up
500
480
460
440
420
400
380
360
340
320
300
LONDON GOLD- The Spot chart was unchanged, and prices ended at $375. Fed Rate Hike gave traders no reason to Buy
Long term Trend is barely Bullish above rising Support Line and we need to hold and reverse off that Trendline to maintain up trend.

GOLD: Emerson (nobody, it seems, reads him anymore) noted that, "Nothing is as powerful as an idea whose time has come."

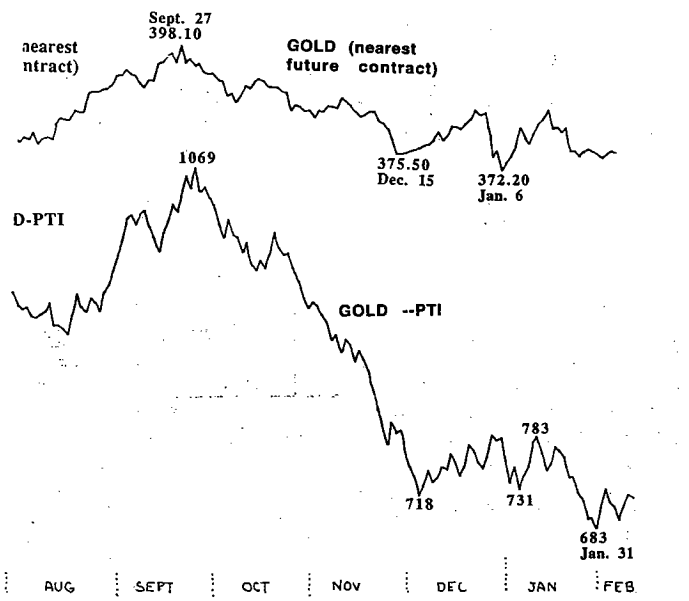
He might well have written that about gold. Gold's time has just not come yet. The peso can collapse, the ruble can collapse, 27 wars can be fought around the globe, the US and most other nations can continue running up massive deficits while printing paper to cover those deficits -- and gold still will not head skyward. The world's faith in paper and paper credits is unshaken.

But wait -- is it possible that gold has bottomed? I gave the "critical low figure" for gold as 368. That's the number that bulls on gold don't want to see. And so far, they haven't seen it.

The point & figure chart for gold still looks all right. Believe it or not, we have (count 'em) *four ascending lows, starting from the 1993 bottom.* That's long-term bullish. Ah, but it's the short-term we have to struggle with. The problem -- to get gold rising into the 380s again (P&F chart courtesy of *Chartcraft,* New Rochelle, NY).

Central bankers, finally believing their own nonsense, have been selling gold for paper. But now central bank sales of gold have about ended. We certainly know Canada's gold sales are over. We know because Canada has already sold almost ALL of its gold (while at the same time the Canadian dollar is at an historic low against the US dollar).

My Gold-PTI has been declining ever since late-September. The low was recorded on January 31 at 683 (see chart). Is it possible that 683 represents the final low? We'll see.



LATE NOTES: Volume on the NYSE has been BIG. Two weeks ago the NYSE had its second biggest volume week in history. And still the Dow has not plowed through the 3955 level. The plurality of advances and declines has been running around even -- meaning that there's been a lot of churning. If you run up the down escalator long enough, you get tired. And that could be what's happening on Wall Street. The market's overbought. And buyers are getting tired . . . Watch the bonds here; the Fed may not be finished tightening.

Mutual fund buying has been a mainstay of the stock market for the past three or four years. But now the funds' level of cash is low, and (with interest rates attractive) the public is sending in less money to the equity funds. But the funds keep buying and the analysts keep recommending stocks. A test -- write down a list of the recommended stocks and their current prices. Then check those prices one year from now. Should be interesting.

NEXT MAILING: Mar. 1, 1995